

KEY TAKEAWAYS

- The corporate and municipal segments contributed positively to performance in Q1.
- We positioned the portfolio for a yield curve steepening movement amid rate cut expectations.
- We maintained an overweight positioning in investment grade corporate credits.

PORTFOLIO MANAGERS



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PERFORMANCE ANALYSIS

Strong Performance in the First Quarter

During the first quarter, the portfolio performed well due to its position in the municipal as well as the corporate segments as the bonds we own have, on average, short maturities in an environment where bond yields have risen sharply.

Also, and specifically for corporate bonds, our big overweight was beneficial for the portfolio as their risk premium continued to tighten relative to government bonds due in large part to the economy continuing to perform well despite past central bank actions.

TOP CONTRIBUTORS (QTD)

- Corporate bonds
- Municipal bonds

TOP DETRACTORS (QTD)

- Federal bonds
- Provincial bonds

3-YEAR RISK-RETURN ANALYSIS

Indicator	Fund	Index*
Beta	1.01	1.00
Volatility	7.11	7.02
Information ratio	0.84	-
Tracking error	0.51	

PERCENTILE RANKING (GROSS RETURNS)

Period	Percentile ranking	Nb of funds in category
1 year	66	183
3 years	62	159
5 years	57	129

Source: Morningstar ratings, Canadian Fixed Income

FUND CHARACTERISTICS

Characteristic	Fund	Index*
Number of holdings	566	1736
Yield to maturity	4.47%	4.21%
Average duration	7.37	
Average coupon	3.44%	3.30%
Average credit rating	AA(L)	AA

* FTSE Canada Universe

Bonds

PORTFOLIO ACTIVITY

Increasing Short-Term Corporate Credits

We increased exposure to shorter-dated corporate credit bonds financed with longer term ones whose spreads are at historically low levels with the Canadian yield curve still inverted, resulting in a better risk/reward profile in our view.

As provincial budget season was expected to bring large deficits and spreads at their tightest since the beginning of 2022, we sold provincial bonds to be underweight versus the index. Spreads did widen as expected and we have since bought them back.

With the first rate cut from the Bank of Canada approaching, we positioned the portfolio for a yield curve steepening movement.

PORTFOLIO POSITIONING

Overweight Credit and Tactical on Duration

We maintained an overweight positioning in investment grade corporate credit as the economy is still expanding. Although we maintained that exposure across the maturity spectrum, we preferred shorter term IG credit. We started the second quarter with a small overweight position in provincial credit as their spreads widened recently with the publication of the provinces' budgets. Specifically, we favoured peripheral credits unlike Ontario. We maintained our overweight positioning in non-rated bonds issued by municipalities in the province of Quebec. We like this credit as it bears a low interest rate risk combined with a higher yield.

Nimbleness continues to be the key in such volatile markets and, as a result, we will continue to be tactical and to manage the portfolio's interest rate risk actively.

MARKET OUTLOOK

Bond Yields at Multi-Year Highs, Offering an Attractive Risk/Reward Profile

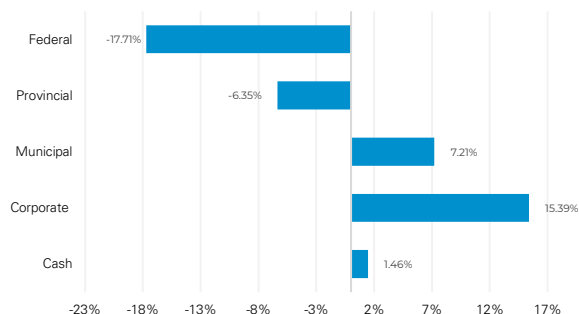
Supporting this view is that we do expect growth in Canada to continue to slow in 2024 and inflation to stay on a downward trend, causing the Bank of Canada to lower its overnight rate later this year. While we do have a positive outlook for bonds, we do expect market volatility to be driven primarily by the pricing of central bank cuts in 2024. On a positive note, volatility will afford us opportunities to be active and tactical in our portfolio positioning.

We believe the current inverted yield curve will begin to steepen once central banks start cutting policy rates later this year. Lastly, we still have a positive outlook on investment grade corporate credits in the near term; however, the risk/reward is less compelling today than a few months ago given current valuations.

SIGNIFICANT TRANSACTIONS (Q1 2024)

Transaction	Rationale
BUY less-than-5-years IG credits financed with long term IG credits	Better risk/reward as long-term corporate spreads are at historically low levels and the yield curve is inverted.
SELL provincial bonds	Spreads had tightened and we expected them to widen as provincial governments publish their budgets.
SELL 30-year government of Canada bonds and BUY shorter term government of Canada bonds	As we get closer to the first rate cut, shorter term securities should perform better than their longer-term counterparts
Duration	Tactical with an overweight bias as volatility is still a predominant theme in the market

SECTOR DEVIATIONS



TOP 5 HOLDINGS

Holding	Type of issuer	Weight (%)
Industrial Alliance Canadian Corporate Bond (iA) Fund	Fixed Income	25.47
Government of Canada, 3.250%, 2033-12-01	Federal Government	5.13
Government of Canada, 0.500%, 2030-12-01	Federal Government	4.68
Government of Canada, 1.750%, 2053-12-01	Federal Government	2.98
Province of Ontario, 2.900%, 2046-12-02	Provincials	2.01

About iA Global Asset Management (iAGAM)

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